



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

May 15, 2015

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Xenia Rural Water District.

The District had total revenues of \$13,614,467 for the year ended December 31, 2014, a 6.3% increase over the prior year. Revenues included water sales of \$12,636,898 and water connection fees of \$385,704. The increase in revenues was primarily due to increased residential water sales of \$398,563 and increased commercial water sales of \$113,328.

Expenses totaled \$11,942,989 for the year ended December 31, 2014, a 1.9% decrease from the prior year. Expenses included \$4,473,920 of interest, \$2,682,110 of depreciation/amortization and \$1,326,969 of salaries and wages. The decrease in expenses is due primarily to decreased interest expense and decreases in losses related to inventory dispositions and capital asset sales in the prior year.

A copy of the audit report is available for review at the Xenia Rural Water District, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1433-0037-B000.pdf>.

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**XENIA RURAL WATER DISTRICT**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SCHEDULE OF FINDINGS**

**DECEMBER 31, 2014 and DECEMBER 31, 2013**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-11
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Position	A 14-15
Statement of Revenues, Expenses and Changes in Net Position	B 16-17
Statement of Cash Flows	C 18-19
Notes to Financial Statements	20-33
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	35-36
Schedule of Findings	37-41
Staff	42

**Xenia Rural Water District**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before April 2014)</b>		
Dan Lovett	Chair	Apr 2014
Troy Wilson	Vice Chair	Apr 2016
Tom Ballard	Treasurer	Apr 2015
Jean Bromert	Secretary	Apr 2014
Harold Jensen	Director	Apr 2016
Gary Becker	Director	Apr 2016
Dr. L.D. McMullen	Interim General Manager	(Through Dec 2013)
Gary Benjamin (Appointed)	General Manager (Effective Jan 2014)	Indefinite
Gary Andrews	Controller	Indefinite
<b>(After April 2014)</b>		
Dan Lovett	Chair	Apr 2017
Troy Wilson	Vice Chair	Apr 2016
Tom Ballard	Treasurer	(Resigned Apr 2014)
Gary Becker	Treasurer (Effective May 2014)	Apr 2016
Harold Jensen	Secretary	Apr 2016
Amy Kahler (Appointed)	Director (Effective Aug 2014)	Apr 2015
Jerry Carris	Director	Apr 2017
Gary Benjamin	General Manager	Indefinite
Gary Andrews	Controller	Indefinite

**Xenia Rural Water District**



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Independent Auditor's Report

To the Members of the  
Xenia Rural Water District:

Report on the Financial Statements

We have audited the accompanying financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2014 and 2013, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Xenia Rural Water District at December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### Emphasis of a Matter

The accompanying financial statements have been prepared assuming the District will continue as a going concern. The District entered into a forbearance agreement with Assured Guaranty Corporation to provide structure for repaying outstanding debt obligations to Assured Guaranty Corporation and others. While the forbearance agreement provides for current reductions in scheduled debt repayments, escalated debt repayments are required in future years. In the event of default under the forbearance agreement, unless waived by Assured Guaranty Corporation, all amounts owed to Assured Guaranty Corporation become due and payable in full.

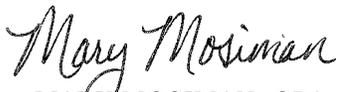
### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2015 on our consideration of the Xenia Rural Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 29, 2015

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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As financial management of the District, we offer readers of these financial statements an overview and analysis of the financial activities of the District. This narrative is designed to assist readers in focusing on significant financial issues, identifying changes in the District's financial position and identifying individual issues or concerns.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts. It should be read in conjunction with the financial statements which begin on page 14.

### **FINANCIAL HIGHLIGHTS**

- ◆ The District's net position increased 174.5%, or \$1,671,478, in 2014 and increased 202.9%, or \$641,701, in 2013 as a result of operations and other gains or losses in the respective years.
- ◆ Operating revenues increased 5.2%, or \$661,575, in 2014. The increase in operating revenues resulted from a rate increase. Operating revenues in 2013 increased \$669,646, or 5.5%, over 2012.
- ◆ Operating expenses increased 2.5%, or \$183,107, in 2014 because of factors such as higher salaries and wages and higher repair and maintenance expense. Operating expenses in 2013 decreased \$931,345, or 11.4%, from 2012 because of lower salaries and wages, lower repair and maintenance expense, lower professional fees expense and lower depreciation expense.

### **USING THIS ANNUAL REPORT**

The financial statements included in this financial report provide information about the activities and performance of the District using accounting methods similar to those used by private sector businesses. These financial statements combine the District's current financial resources with capital assets and long-term obligations.

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The Statement of Cash Flows provides information about the District's sources and uses of cash receipts and cash payments. The sources and uses of cash are organized by operating activities, capital and related financing activities and investing activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the District's financial statements. The Notes to Financial Statements are a required part of the basic financial statements.

## FINANCIAL ANALYSIS

### Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of 2014 totaled \$2,629,525. This compares to \$958,047 at the end of 2013 and \$316,346 at the end of 2012. A summary of the District's net position is presented below.

	Net Position		
	December 31,		
	2014	2013 (as restated)	2012 (as restated)
Current assets	\$ 11,026,766	9,647,559	7,044,351
Capital assets, net of accumulated depreciation/amortization	118,823,551	120,628,004	123,816,737
Other noncurrent assets	717,067	321,206	601,046
Total assets	130,567,384	130,596,769	131,462,134
Current liabilities	4,883,694	4,754,004	3,973,529
Noncurrent liabilities	123,054,165	124,884,718	127,172,259
Total liabilities	127,937,859	129,638,722	131,145,788
Net position:			
Restricted	480,419	66,595	65,279
Unrestricted	2,149,106	891,452	251,067
Total net position	\$ 2,629,525	958,047	316,346

Net position increased \$1,671,478 during the year ended December 31, 2014 and increased \$641,701 during the year ended December 31, 2013. The increase in net position is primarily the result of increased operating revenues due to rate increases and decreased nonoperating expenses, primarily lower interest expense and decreases in losses related to inventory dispositions and capital asset sales in the prior year. The increase in net position in 2013 was due primarily to rate increases and decreased operating and nonoperating expenses, primarily lower expenses for salaries and wages, repair and maintenance, professional fees and depreciation/amortization.

Total liabilities of the District were \$127,937,859 and \$129,638,722 at December 31, 2014 and 2013, respectively. Noncurrent liabilities included in total liabilities were \$123,054,165 and \$124,884,718 at December 31, 2014 and 2013, respectively. Total liabilities decreased \$1,700,863 in 2014 and decreased \$1,507,066 in 2013. The decrease in liabilities at December 31, 2014 was primarily the result of principal payments made on the water revenue bonds, series 2006, water and wastewater notes payable and project anticipation notes payable. The decrease in liabilities at December 31, 2013 was primarily the result of principal payments made on the water revenue bonds, series 2006 and water and wastewater notes payable.

A significant portion of the District's total assets, 91% and 92%, were invested in capital assets at December 31, 2014 and 2013, respectively.

### Statement of Revenues, Expenses and Changes in Net Position

The following Condensed Statement of Revenues, Expenses and Changes in Net Position summarize the District's operating results for the years ended December 31:

	Revenues, Expenses and Changes in Net Position		
	Year Ended December 31,		
	2014	2013 (as restated)	2012 (as restated)
Operating revenues	\$ 13,340,879	12,679,304	12,020,726
Operating expenses	(7,456,713)	(7,273,606)	(8,204,951)
Operating income	5,884,166	5,405,698	3,815,775
Nonoperating revenues	273,588	132,317	196,556
Nonoperating expenses	(4,486,276)	(4,896,314)	(6,039,395)
Change in net position	\$ 1,671,478	641,701	(2,027,064)

The Statement of Revenues, Expenses and Changes in Net Position reflect an increase in net position in 2014 and 2013 and a decrease in net position in 2012.

Year ended December 31, 2014:

The change in net position in 2014 was a result of the following: 1) Total operating revenues increased 5.2% over the prior year because of a water rate increase. The District's water revenue of \$12,636,898 increased 5.5% over 2013. In January 2014, a water rate increase went into effect for all users. 2) Non-operating revenues increased 107% from 2013. The increase was a result of 2014 gains from the sale of capital assets which did not occur in 2013 and an investment gain which did not occur in 2013. 3) Non-operating expenses decreased 8.4% from 2013. Interest expense decreased \$65,792, or 1.4%.

Year ended December 31, 2013:

The change in net position in 2013 was a result of the following: 1) Total operating revenues increased 5.5% over 2012 because of a water rate increase. The District's water revenue of \$11,971,780 increased 5.1% over 2012. In January 2013, a water rate increase went into effect for all users. 2) Operating expenses decreased 11.5% from 2012. Decreases in operating expenses were from lower salaries and wages, lower repair and maintenance expense, lower professional fees expense and lower depreciation/amortization expense. 3) Non-operating revenues decreased 32.7% from 2012. The decrease was a result of 2012 gains from the sale of capital assets which did not occur in 2013 and a decrease in land rental and miscellaneous revenues. 4) Non-operating expenses decreased 18.9% from 2012. Interest expense decreased \$1,190,723, or 20.8%.

*Statement of Cash Flows*

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes cash received from customers for water sales and sewer use reduced by employee payroll and payments to suppliers. Cash used by capital and related financing activities includes principal and interest paid on bonds and notes and the purchase of capital assets. Cash provided by investing activities includes sales of money market securities and interest income.

The following summarize the District's cash flows:

	Year ended December 31,		
	2014	2013	2012
Cash flows provided (used) by:			
Operating activities	\$ 8,552,781	7,971,867	7,102,360
Capital and related financing activities	(7,251,250)	(5,435,330)	(7,809,127)
Investing activities	652,783	(1,428,138)	19,226
Net increase in cash and cash equivalents	1,954,314	1,108,399	(687,541)
Cash and cash equivalents beginning of year	6,655,361	5,546,962	6,234,503
Cash and cash equivalents end of year	8,609,675	6,655,361	5,546,962
Investments	786,301	1,419,102	-
Cash, cash equivalents and pooled investments end of year	\$ 9,395,976	8,074,463	5,546,962

## CAPITAL ASSETS

The following summarizes capital assets:

	December 31,		
	2014	2013	2012
Nondepreciable/amortizable capital assets	\$ 1,070,910	1,044,094	1,886,697
Depreciable/amortizable capital assets	144,324,933	144,283,886	144,034,164
Intangible assets	5,207,348	4,885,629	4,885,629
Accumulated depreciation/amortization	(31,779,640)	(29,585,605)	(26,989,753)
Total capital assets, net of accumulated depreciation/amortization	\$ 118,823,551	120,628,004	123,816,737

Capital assets, net of accumulated depreciation/amortization, (including water lines, equipment and buildings) of the District were \$118,823,551 and \$120,628,004 at December 31, 2014 and 2013, respectively. This is a net decrease of \$1,804,453 during the year ended December 31, 2014. Total capital assets decreased because of the disposal of equipment and tools and current year depreciation/amortization.

Construction in progress included in nondepreciable/amortizable capital assets was \$186,757 and \$159,941 at December 31, 2014 and 2013, respectively. Further details on capital assets are presented in Note 4 of the Notes to Financial Statements.

## LONG TERM DEBT

The following summarizes outstanding long-term debt:

	December 31,		
	2014	2013	2012
Revenue notes	\$ 45,006,327	45,708,810	45,749,245
Revenue bonds	76,040,761	77,459,361	78,822,960
Assured Guaranty Corporation	2,519,867	2,519,867	2,519,867
Project anticipation notes	1,438,168	1,443,168	1,468,168
Asset purchase agreement	-	-	76,426
Rural community 2000 loan	-	20,000	20,000
Total	\$ 125,005,123	127,151,206	128,656,666

In 2014, the District repaid \$699,319 of principal on USDA Rural Development water revenue notes, \$3,164 of principal on USDA Rural Development wastewater revenue notes, \$1,418,600 of principal on water revenue bonds, series 2006, \$5,000 on project anticipation notes and \$20,000 of a Rural Community 2000 Loan through Iowa Economic Development Authority, thereby retiring the debt. For further details on long-term debt, see Note 7 of the Notes to Financial Statements.

In 2013, the District repaid \$37,795 of principal on USDA Rural Development water revenue notes, \$3,040 of principal on USDA Rural Development wastewater revenue notes and \$1,385,000 of principal on water revenue bonds, series 2006, and \$25,000 on project anticipation notes. The District also repaid \$76,426 of an asset purchase agreement, thereby retiring the debt.

Debt service coverage has been calculated based on the definitions of gross revenues, operating expenses and special charges as defined in the water revenue bonds, series 2006 resolution. Debt service coverage on the scheduled water parity debt payments of the District was 127% at December 31, 2014 and 130% at December 31, 2013. Covenants of the water revenue bonds, series 2006 state net revenues during each year will be sufficient to pay debt service and deposits into the required funds, but not less than 100% of the debt service payments on the bonds and parity obligations.

The water revenue bonds, series 2006 cash balance requirement for the restricted reserve is \$5,225,300. At December 31, 2014 and 2013, the balance of the restricted cash water revenue bonds, series 2006 reserve was \$330,025 and \$0, respectively. On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and, as part of the forbearance agreement, the District is allowed to replenish the reserve account over a ten-year period beginning in January 2014 with the reserve account to reflect a fully replenished balance of \$5,225,300 by the end of 2023. Further details on reserves and debt service are presented in Note 7 of the Notes to Financial Statements.

The USDA Rural Development bond resolution requires amounts to be deposited monthly into a reserve account until a balance of one-tenth of one full year's principal and interest payment is on reserve. At December 31, 2014 and 2013, the balance of the restricted cash, USDA water notes reserve was \$143,957 and \$61,466, respectively. On March 29, 2013, USDA approved refinancing all outstanding USDA Rural Development water revenue notes. As part of the refinancing, USDA has allowed the District to replenish the reserve account over a ten-year period beginning in January 2014, with the reserve account to reflect a fully replenished balance of \$1,649,640 by the end of 2023. Further details on reserves and debt service are presented in Note 7 of the Notes to Financial Statements.

In July 2012, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee has been assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. Because of this guarantee, the long term and underlying ratings on the District's water revenue bonds, series 2006 were raised from 'D' to 'AA'. The District's prior rating of 'D' was the result of the District not paying obligations in accordance with terms of the agreement.

## **ECONOMIC OUTLOOK**

On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and USDA approved refinancing all outstanding USDA Rural Development water revenue notes on March 29, 2013. The forbearance agreement and USDA refinancing were designed to address the District's financial obligations to parity lenders and structure a plan for meeting those obligations.

The forbearance agreement and USDA refinancing have reduced the interest rates on existing debt obligations and have allowed the District to structure the repayment of financial obligations in a manner which allows a more realistic time horizon for repaying debt obligations and replenishing reserve requirements.

Since completion of the forbearance agreement and USDA refinancing, the District has made full debt payments and net cash flows for calendar year 2014 exceeded the amounts projected in the approved plan. Future cash flow needs are continuously being assessed and measures are being taken to ensure the District stays in compliance with all requirements of the forbearance agreement and USDA refinancing.

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying Notes to Financial Statements, this report presents other information, including the Schedule of Findings. This information can be found on pages 37 through 41.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to present our customers and creditors with a general overview of the District's finances and operating activities. If you have any questions or require additional information, please contact the Controller of the Xenia Rural Water District at (515) 676-2117 or 23998 141<sup>st</sup> Street, Bouton, Iowa 50039.

**Xenia Rural Water District**

## **Basic Financial Statements**

**Exhibit A**

Xenia Rural Water District  
Statement of Net Position  
December 31, 2014 and 2013

	December 31,	
	2014	2013 (as restated)
<b>Assets</b>		
Current assets:		
Cash, cash equivalents and pooled investments	\$ 8,915,557	8,007,868
Accounts receivable:		
Trade	1,993,506	1,572,015
Other	41,938	-
Prepaid expenses	75,765	67,676
Total current assets	<u>11,026,766</u>	<u>9,647,559</u>
Noncurrent assets:		
Inventory	236,648	254,611
Capital assets, net of accumulated depreciation/amortization	118,823,551	120,628,004
Restricted cash:		
USDA Rural Development water notes reserve fund	143,957	61,466
USDA Rural Development wastewater notes reserve fund	6,437	5,129
Water revenue bonds, series 2006, reserve fund	330,025	-
Total noncurrent assets	<u>119,540,618</u>	<u>120,949,210</u>
<b>Total assets</b>	<u>\$ 130,567,384</u>	<u>\$ 130,596,769</u>

Xenia Rural Water District  
Statement of Net Position  
December 31, 2014 and 2013

	December 31,	
	2014	2013 (as restated)
<b>Liabilities</b>		
Current liabilities:		
Accounts payable:		
Trade	\$ 252,552	238,966
Assured Guaranty Corporation	1,675,483	1,675,483
Accrued payroll taxes, IPERS contribution and sales tax	45,895	49,748
Accrued payroll	41,049	30,051
Accrued compensated absences	46,746	50,248
Unearned revenue	12,720	-
Customer deposits	74,051	72,541
Sewer payables	42,949	27,203
Advances from others	7,500	7,500
Accrued interest payable:		
USDA Rural Development water revenue notes	69,600	35,656
Water revenue bonds, series 2006	295,311	300,120
Current portion of long-term debt	2,319,838	2,266,488
Total current liabilities	<u>4,883,694</u>	<u>4,754,004</u>
Noncurrent liabilities:		
Unearned revenue	368,880	-
Revenue notes payable	44,186,489	44,902,322
Revenue bonds payable	74,540,761	76,019,361
Assured Guaranty Corporation payable	2,519,867	2,519,867
Project anticipation notes payable	1,438,168	1,443,168
Total noncurrent liabilities	<u>123,054,165</u>	<u>124,884,718</u>
<b>Total liabilities</b>	<u>127,937,859</u>	<u>129,638,722</u>
<b>Net position</b>		
Restricted for debt service	480,419	66,595
Unrestricted	2,149,106	891,452
Total net position	<u>2,629,525</u>	<u>958,047</u>
<b>Total liabilities and net position</b>	<u>\$ 130,567,384</u>	<u>130,596,769</u>

See notes to financial statements.

**Exhibit B**

## Xenia Rural Water District

Statement of Revenues, Expenses and  
Changes in Net Position

Years ended December 31, 2014 and 2013

	December 31,	
	2014	2013 (as restated)
Operating revenues:		
Water sales:		
Residential	\$ 8,883,224	8,484,661
Commercial	805,923	692,595
Industrial	2,567,461	2,475,278
Wholesale	380,290	319,246
Service charges	222,969	208,805
Contracted billing:		
Water	5,143	20,890
Wastewater	12,840	13,910
Water connection fees	385,704	385,026
Wastewater	74,510	77,212
Miscellaneous	2,815	1,681
Total operating revenues	<u>13,340,879</u>	<u>12,679,304</u>
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	24,551	24,437
Other	2,657,559	2,668,434
Salaries and wages	1,326,969	1,159,255
Purchased water	1,209,165	1,197,018
Professional fees	178,596	317,690
Utilities	339,181	334,082
Chemicals	247,553	237,812
Payroll taxes	106,606	96,681
General insurance	130,221	122,793
Employee benefits	260,495	267,847
Repair and maintenance	470,679	412,493
Wastewater operations	33,294	30,474
Fuel	132,316	128,956
Office expense	145,170	133,133
Postage and freight	7,817	7,668
Telephone	35,004	34,728
Vehicle repair and maintenance	66,230	42,408
Testing and lab	29,375	30,827
Licenses, dues and subscriptions	25,905	4,258
Miscellaneous	6,174	959
Bank fees and service charges	10,850	11,512

Xenia Rural Water District-

Statement of Revenues, Expenses and  
Changes in Net Position

Years ended December 31, 2014 and 2013

	December 31,	
	2014	2013 (as restated)
Operating expenses (continued):		
Continuing education	7,422	2,915
Mileage	2,668	1,686
Advertising and promotion	1,279	2,713
Directors' per diem	1,548	2,734
Meals and lodging	86	93
Total operating expenses	<u>7,456,713</u>	<u>7,273,606</u>
Operating income	<u>5,884,166</u>	<u>5,405,698</u>
Non-operating revenues (expenses):		
Custom water connection and relocation fees	5,089	31,188
Membership and termination fees	86,150	82,600
Investment gain (loss)	19,982	(9,036)
Interest expense	(4,473,920)	(4,539,712)
Rental income	9,000	7,678
CRP repayment	(12,356)	-
Gain (loss) on sale of capital assets	152,300	(165,799)
Miscellaneous	981	10,851
Gain (loss) on disposal of inventory	86	(181,767)
Net non-operating revenues (expenses)	<u>(4,212,688)</u>	<u>(4,763,997)</u>
Change in net position	1,671,478	641,701
Net position beginning of year, as restated	<u>958,047</u>	<u>316,346</u>
Net position end of year	<u>\$ 2,629,525</u>	<u>958,047</u>

See notes to financial statements.

**Exhibit C**

## Xenia Rural Water District

## Statement of Cash Flows

Years ended December 31, 2014 and 2013

	December 31,	
	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 13,318,244	12,583,331
Cash payments to employees for services	(1,691,975)	(1,517,781)
Cash payments to suppliers for goods and services	(3,073,488)	(3,093,683)
Net cash provided by operating activities	<u>8,552,781</u>	<u>7,971,867</u>
Cash flows from capital and related financing activities:		
FEMA public assistance grant received	-	24,468
CRP repayment	(12,356)	-
Cash received from custom connection fees	5,089	31,188
Miscellaneous revenues received	92,343	101,129
Proceeds from sale of assets	114,150	859,746
Proceeds from sale of excess inventory	86	33,594
Acquisition and construction of capital assets	(859,694)	(463,888)
Principal paid on bonds and notes	(2,146,083)	(1,505,460)
Interest paid on bonds and notes	(4,444,785)	(4,516,107)
Net cash used by capital and related financing activities	<u>(7,251,250)</u>	<u>(5,435,330)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	604,372	-
Purchase of investments	-	(1,422,129)
Investment income (loss)	48,411	(6,009)
Net cash provided (used) by investing activities	<u>652,783</u>	<u>(1,428,138)</u>
Net increase in cash and cash equivalents	1,954,314	1,108,399
Cash and cash equivalents beginning of year	<u>6,655,361</u>	<u>5,546,962</u>
Cash and cash equivalents end of year	8,609,675	6,655,361
Investments	<u>786,301</u>	<u>1,419,102</u>
Cash, cash equivalents and pooled investments end of year	<u>\$ 9,395,976</u>	<u>8,074,463</u>

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2014 and 2013

	December 31,	
	2014	2013
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 5,884,166	5,405,698
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization – wastewater systems	24,551	24,437
Depreciation/amortization – other	2,657,559	2,668,434
Changes in assets and liabilities:		
Increase in accounts receivable	(421,491)	(93,342)
Increase in prepaid expenses	(8,089)	(8,149)
Increase (decrease) in accounts payable	13,586	(28,785)
Increase in accrued salaries and wages	7,496	465
Increase (decrease) in accrued payroll taxes, IPERS and sales tax	(3,853)	8,271
Increase in unearned revenues	381,600	-
Decrease in advances from others	-	(8,094)
Increase (decrease) in customer deposits	1,510	(1,921)
Increase in sewer payables	15,746	4,853
Total adjustments	2,668,615	2,566,169
Net cash provided by operating activities	\$ 8,552,781	7,971,867

See notes to financial statements.

Xenia Rural Water District  
Notes to Financial Statements  
December 31, 2014 and 2013

**(1) Summary of Significant Accounting Policies**

The Xenia Rural Water District was formed in 1992 pursuant to the provisions of Chapter 357A.2 of the Code of Iowa. The purpose of the District is to establish, develop, construct, operate and maintain water distribution and wastewater treatment systems for resident members throughout its territory in rural central and north-central Iowa. The District extends credit to customers served, all of whom are located in the State of Iowa.

The governing body of the District is composed of up to nine members, all of whom shall be participating members of the District. The Directors are elected by the participating members who each have one vote at the annual meeting. The Directors are elected to staggered terms so no more than three Directors are elected in any year. Directors hold office for a term of three years and until a successor is elected and has qualified.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Xenia Rural Water District has included all funds, organizations, agencies, boards, districts and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the District are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs (expenses, including depreciation/amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District distinguishes operating revenues from non-operating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues.

D. Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash, Cash Equivalents and Pooled Investments – The District considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and certificates of deposit which are stated at cost.

Restricted Cash – Funds set aside for payment of debt issuances are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation/amortization of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the District as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the District are depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Water system and wells	60
Wastewater systems	15-60
Intangibles, purchased capacity	40
Intangibles, software	3-5
Plant building	40
Office building and improvements	7-39
Equipment and tools	3-12
Transportation equipment	3-7
Office furniture and equipment	3-7

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The District’s liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2014 and 2013.

Inventory – Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of parts for the assembly and repair of new and existing water systems. When inventory is used for capital projects, it is included as a cost of the related project. Excess inventory held for sale is stated at estimated realizable value.

Accounts Receivable – The District recognizes bad debt expense on the direct write-off method.

Unearned Revenue – The District enters into contractual agreements with other political subdivisions to sell treatment capacity to those entities. In exchange for purchasing treatment capacity, the political subdivisions will be able to purchase water at a lower wholesale water rate. At the beginning of the agreement, the purchaser makes a cash payment and the District records the amount as unearned revenue and then amortizes the amount into income over a period of 30 years. As of December 31, 2014, the District has not recognized any revenue related to the agreements.

E. Bond Discounts

Bond discounts incurred on the water revenue bonds, series 2006 for the purpose of refunding outstanding obligations are amortized on the straight-line method over the life of the bonds. Bond discounts incurred for the purpose of funding capital projects are treated as a cost of the project and capitalized as a capital asset when the project was started, based on the project budget.

Amortization charged to interest expense for 2014 and 2013 was \$21,400 and \$21,401, respectively.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentations.

**(2) Cash, Cash Equivalents and Pooled Investments**

The District's deposits in banks at December 31, 2014 and 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the District; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At December 31, 2014, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 270,106	11/17/2015
Federal National Mortgage Association (FNMA)	<u>516,195</u>	10/15/2015
Total	<u>\$ 786,301</u>	

In addition, the District had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$488,351 pursuant to rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The District's investment policy limits the maturities of investments based on the funds established by debt resolutions. Funds not identified by a specific fund may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the District.

Credit risk – The District's FHLMC and FNMA investments at December 31, 2014 are rated Aaa by Moody's Investors Service. The investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk – The District places no limit on the amount which may be invested in any one issuer. More than 5% of the District's investments are in the Federal Home Loan Mortgage Corporation (21.2%) and the Federal National Mortgage Association (40.5%).

**(3) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.95% of their annual covered salary. The District was required to contribute 8.93% of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended December 31, 2014, 2013 and 2012 were \$121,028, \$106,205 and \$109,584, respectively, equal to the required contributions for each year.

**(4) Capital Assets**

Capital assets activity for the years ended December 31, 2014 and 2013 was as follows:

	Year ended December 31, 2014			Balance End of Year
	Balance Beginning of Year	Increases	Decreases	
Capital assets not being depreciated/amortized:				
Land	\$ 884,153	-	-	884,153
Construction in progress	159,941	347,414	(320,598)	186,757
Total capital assets not being depreciated/amortized	1,044,094	347,414	(320,598)	1,070,910
Capital assets being depreciated/amortized:				
Office building and improvements	3,336,629	64,334	(1,400)	3,399,563
Office furniture and equipment	296,744	-	(40,684)	256,060
Plant building	618,339	-	(11,454)	606,885
Wells	62,982	-	-	62,982
Wastewater systems	1,434,944	13,697	-	1,448,641
Water lines	135,993,180	242,567	-	136,235,747
Intangibles, purchased capacity	4,728,209	322,625	-	5,050,834
Intangibles, software	157,420	18,000	(18,906)	156,514
Telemetry system	602,706	5,710	-	608,416
Equipment and tools	1,938,362	183,908	(415,631)	1,706,639
Total capital assets being depreciated/amortized	149,169,515	850,841	(488,075)	149,532,281
Less accumulated depreciation/amortization for:				
Office building and improvements	1,045,371	125,279	(1,400)	1,169,250
Office furniture and equipment	241,371	14,108	(40,684)	214,795
Plant building	475,404	14,728	(11,454)	478,678
Wells	48,817	1,575	-	50,392
Wastewater systems	131,301	24,551	-	155,852
Water lines	23,654,530	2,278,080	-	25,932,610
Intangibles, purchased capacity	1,913,339	122,281	-	2,035,620
Intangibles, software	149,333	6,233	(18,906)	136,660
Telemetry system	255,961	31,665	-	287,626
Equipment and tools	1,670,178	63,610	(415,631)	1,318,157
Total accumulated depreciation/amortization	29,585,605	2,682,110	(488,075)	31,779,640
Total capital assets being depreciated/amortized, net	119,583,910	(1,831,269)	-	117,752,641
Capital assets, net	\$ 120,628,004	(1,483,855)	(320,598)	118,823,551

	Year ended December 31, 2013			Balance End of Year
	Balance Beginning of Year	Increases	Decreases	
Capital assets not being depreciated/amortized:				
Land	\$ 1,806,998	-	(922,845)	884,153
Construction in progress	79,699	431,227	(350,985)	159,941
Total capital assets not being depreciated/amortized	1,886,697	431,227	(1,273,830)	1,044,094
Capital assets being depreciated/amortized:				
Office building and improvements	3,321,916	14,713	-	3,336,629
Office furniture and equipment	266,423	49,306	(18,985)	296,744
Plant building	618,339	-	-	618,339
Wells	167,164	-	(104,182)	62,982
Wastewater systems	1,434,944	-	-	1,434,944
Water lines	135,680,767	312,413	-	135,993,180
Intangibles, purchased capacity	4,728,209	-	-	4,728,209
Intangibles, software	157,420	-	-	157,420
Telemetry system	559,558	43,148	-	602,706
Equipment and tools	1,985,053	29,861	(76,552)	1,938,362
Total capital assets being depreciated/amortized	148,919,793	449,441	(199,719)	149,169,515
Less accumulated depreciation/amortization for:				
Office building and improvements	921,346	124,025	-	1,045,371
Office furniture and equipment	247,248	13,108	(18,985)	241,371
Plant building	460,675	14,729	-	475,404
Wells	49,847	2,877	(3,907)	48,817
Wastewater systems	106,864	24,437	-	131,301
Water lines	21,384,579	2,269,951	-	23,654,530
Intangibles, purchased capacity	1,792,380	120,959	-	1,913,339
Intangibles, software	144,723	4,610	-	149,333
Telemetry system	226,361	29,600	-	255,961
Equipment and tools	1,655,730	88,626	(74,178)	1,670,178
Total accumulated depreciation/amortization	26,989,753	2,692,922	(97,070)	29,585,605
Total capital assets being depreciated/amortized, net	121,930,040	(2,243,481)	(102,649)	119,583,910
Capital assets, net	\$ 123,816,737	(1,812,254)	(1,376,479)	120,628,004

Depreciation/amortization expense charged to wastewater systems for 2014 and 2013 was \$24,551 and \$24,437, respectively. Depreciation/amortization expense charged to other operations for 2014 and 2013 was \$2,657,559 and \$2,668,434, respectively.

**(5) Risk Management**

The District is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District assumes liability for any deductibles and claims in excess of coverage limitations.

**(6) Major Customers**

Water sales revenue to three ethanol plants was \$2,567,461 and \$2,475,278 for the years ended December 31, 2014 and 2013, respectively. This represents 19.1% and 19.4% of total operating revenues for each year, respectively. The balances due from these customers and included in accounts receivable-trade were \$204,971 and \$215,789 at December 31, 2014 and 2013, respectively.

**(7) Changes in Long Term Liabilities**

A summary of changes in long-term liabilities for the years ended December 31, 2014 and 2013 is as follows:

Obligation	Year ended December 31, 2014				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 45,460,072	-	(699,319)	44,760,753	816,614
Wastewater revenue note	248,738	-	(3,164)	245,574	3,224
Water revenue bonds, series 2006	77,459,361	-	(1,418,600)	76,040,761	1,500,000
Assured Guaranty Corporation	2,519,867	-	-	2,519,867	-
Rural Community 2000 loan	20,000	-	(20,000)	-	-
Project anticipation notes	1,443,168	-	(5,000)	1,438,168	-
Total	\$ 127,151,206	-	(2,146,083)	125,005,123	2,319,838

Obligation	Year ended December 31, 2013				
	Balance Beginning of Year (as restated)	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 45,497,467	-	(37,395)	45,460,072	803,388
Wastewater revenue note	251,778	-	(3,040)	248,738	3,100
Water revenue bonds, series 2006	78,822,960	-	(1,363,599)	77,459,361	1,440,000
Assured Guaranty Corporation	2,519,867	-	-	2,519,867	-
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	1,468,168	-	(25,000)	1,443,168	-
Asset purchase agreement	76,426	-	(76,426)	-	-
Total	\$ 128,656,666	-	(1,505,460)	127,151,206	2,266,488

Forbearance Agreement and Debt Restructuring – On March 28, 2013, the District completed a forbearance agreement with Assured Guaranty Corporation, the reinsurance company. The forbearance agreement is intended to provide structure to the District's repayment schedule for outstanding debt obligations and replenishment of the reserve requirements for the water revenue bonds, series 2006 and the USDA rural development water revenue notes. The District has also agreed to future water rate increases necessary to meet debt service coverage requirements. The conditions of the forbearance agreement are included below.

USDA Rural Development Water Revenue Notes – The District had issued water revenue notes totaling \$47,281,900 at December 31, 2012. These water revenue notes, with various issue dates and interest rates ranging from 4.125% to 5.625% per annum, required monthly payments of \$196,946. The District has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. These original notes were payable solely from water customer net receipts and were payable through 2049.

On March 29, 2013, the District issued water revenue refunding capital loan notes, taxable series 2013 to refund all outstanding USDA Rural Development water revenue notes retroactively to January 1, 2013. The agreement combined the outstanding principal of \$45,147,232 and \$350,235 of accrued interest at December 31, 2012, for a total of \$45,497,467. The notes have a stated interest rate of 1.875% per annum and required an interest only payment on January 1, 2014 of \$853,077. The interest payment was made on December 10, 2013, so \$37,395 was applied to the outstanding principal balance. Interest and principal payments of \$137,407 are due each month beginning on February 1, 2014, with a final maturity date of January 1, 2053.

At December 31, 2014 and 2013, the debt service coverage ratios of the revenues to debt service were 127% and 130%, respectively. At December 31, 2014 and 2013, the note balances totaled \$44,760,753 and \$45,460,072, respectively.

The resolution providing for the issuance of the water revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water reserve account shall be established. There shall annually be deposited to the water reserve account an amount equal to 10% of the water reserve account requirement. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the notes and for the establishment of adequate reserves.

- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not maintained the required balance in the water reserve account, has not deposited required amounts to the improvement account and the amount of surety bond coverage does not meet the minimum requirements of the note resolution.

USDA Rural Development Wastewater Revenue Note – On January 8, 2010, the District issued a \$260,000 wastewater revenue note, series 2010 for the purpose of paying the construction costs of a community-wide sanitary sewer collection and treatment system to serve the residents of Bouton. The note proceeds paid the outstanding principal of the \$260,000 project anticipation note from F & M Bank. The note bears interest at 4.00% per annum with monthly principal and interest payments of \$1,088. The note matures on January 8, 2050. At December 31, 2014 and 2013, the note balance totaled \$245,574 and \$248,738, respectively.

The District has pledged future wastewater customer receipts, net of specified operating disbursements, to repay the wastewater revenue note. The note is payable solely from wastewater customer net receipts and is payable through 2050. At December 31, 2014 and 2013, the debt service coverage ratios of net receipts to debt service were 200% and 199%, respectively.

The resolution providing for the issuance of the wastewater revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a wastewater revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A wastewater reserve account shall be established. Monthly payments of \$109 shall be deposited to the wastewater reserve account. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the note and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not deposited required amounts to the improvement account and the amount of surety bond coverage does not meet the minimum requirements of the note resolution.

Water Revenue Bonds – The District has pledged future water customer receipts, net of specified operating disbursements, to repay \$83,865,000 of water revenue bonds issued in November 2006. Proceeds from the bonds provided financing to refund certain outstanding USDA Rural Development water revenue notes, lease purchase obligation agreements and water revenue capital loan notes and pay the costs of improvements and extensions to the District’s water system. The bonds are payable solely from water customer net receipts and are payable through 2041. The total principal remaining to be paid on the bonds at December 31, 2014 is \$76,615,000. At December 31, 2014 and 2013, the debt service coverage ratios of the net receipts (excluding connection fees) to debt service were 127% and 130%, respectively.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A water reserve account shall be established. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the bonds and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not maintained the required balance in the water reserve account, has not deposited required amounts to the improvement account and the amount of surety bond coverage does not meet the minimum requirements of the bond resolution.

Assured Guaranty Corporation – In July 2012, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee, including principal and interest payments of \$1,329,936 made by CIFG NA in 2010, was assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. During 2011, Assured Guaranty Corporation paid the District’s deficiency of \$1,110,644 of principal payments on the water revenue bonds, series 2006. Total principal and interest of \$2,440,580 paid by the reinsurance company continued to accrue interest, which totaled \$79,287, for a total outstanding balance of \$2,519,867 at December 31, 2014 and 2013.

The District entered in a forbearance agreement which, among other things, addressed the repayment of the outstanding balance owed to Assured Guaranty Corporation. The deficiency payments will be paid semi-annually ending on December 1, 2029. The first nine years require interest only payments. The outstanding balances at December 31, 2014 and 2013 were \$2,519,867 and \$2,519,867, respectively.

Rural Community 2000 Loan – The District obtained a \$200,000 loan in 1993 from the Iowa Department of Economic Development (now the Iowa Economic Development Authority) under the Rural Community 2000 program. The loan is interest free and required annual principal payments of \$20,000 through 2009. The District was in default for non-payment of the outstanding loan balance at December 31, 2013. On December 4, 2014, the District made a \$20,000 payment to retire the debt obligation. The outstanding balances at December 31, 2014 and 2013 were \$0 and \$20,000, respectively.

Project Anticipation Notes – In 2006, the District entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee for the issuance of planning and design loans.) The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the costs of planning, designing and constructing improvements and extensions to the water system. The funds were drawn by the District from the Trustee upon request to reimburse the District for costs as they were incurred. The District has drawn \$1,468,168. The District decided not to move forward with the projects and received approval from the Iowa Finance Authority to extend the maturity date from October 16, 2009 to October 16, 2010 and then to October 16, 2011.

As a condition of the forbearance agreement, the District refinanced the project anticipation notes due to the Iowa Finance Authority. The refinanced loan is interest free and is due in full on January 1, 2032. The District made principal payments of \$5,000 and \$25,000 during the years ended December 31, 2014 and 2013, respectively, reducing the outstanding principal balance to \$1,438,168 at December 31, 2014.

Asset Purchase Agreement – The District entered into an asset purchase agreement with Coats Utilities Company on November 5, 2007. As part of the agreement, the District assumed Capmark Loans #01-03244-01 and #01-03244-03 from Coats Utilities Company for the assets collateralizing the loans. Capmark Loan #01-03244-01 bore interest at 5.00% per annum and required monthly principal and interest payments of \$470, with a maturity date of May 6, 2017. Capmark Loan #01-03244-03 bore interest at 5.00% per annum and required monthly principal and interest payments of \$377, with a maturity date of May 11, 2022.

As a condition of the forbearance agreement, the District paid the accrued interest and principal and retired both loans during the year ended December 31, 2013.

A summary of the annual principal and interest payments to maturity is as follows:

Year Ending December 31,	USDA Rural Development								
	Water Revenue Refunding Capital Loan Notes			Wastewater Revenue Notes			Water Revenue Bonds, Series 2006		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 816,614	832,270	1,648,884	3,224	9,832	13,056	1,500,000	3,496,487	4,996,487
2016	832,058	816,826	1,648,884	3,353	9,703	13,056	1,560,000	3,436,487	4,996,487
2017	847,794	801,090	1,648,884	3,487	9,569	13,056	1,620,000	3,374,087	4,994,087
2018	863,827	785,057	1,648,884	3,626	9,430	13,056	1,700,000	3,293,088	4,993,088
2019	880,164	768,720	1,648,884	3,771	9,285	13,056	1,775,000	3,220,838	4,995,838
2020-2024	4,656,889	3,587,531	8,244,420	21,244	44,036	65,280	10,130,000	14,848,156	24,978,156
2025-2029	5,114,218	3,130,202	8,244,420	25,847	39,433	65,280	12,575,000	12,398,256	24,973,256
2030-2034	5,616,458	2,627,962	8,244,420	31,447	33,833	65,280	15,715,000	9,293,456	25,008,456
2035-2039	6,168,021	2,076,399	8,244,420	38,260	27,020	65,280	20,345,000	5,239,575	25,584,575
2040-2044	6,773,751	1,470,669	8,244,420	46,549	18,728	65,277	9,695,000	680,450	10,375,450
2045-2049	7,438,965	805,455	8,244,420	56,633	8,647	65,280	-	-	-
2050-2054	4,751,994	137,054	4,889,048	8,133	334	8,467	-	-	-
Total	\$ 44,760,753	17,839,235	62,599,988	245,574	219,850	465,424 *	76,615,000	59,280,880	135,895,880

Year Ending December 31,	Project Anticipation Notes			Assured Guaranty Corporation			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ -	-	-	-	47,248	47,248	2,319,838	4,385,837	6,705,675
2016	-	-	-	-	47,248	47,248	2,395,411	4,310,264	6,705,675
2017	-	-	-	-	47,248	47,248	2,471,281	4,231,994	6,703,275
2018	-	-	-	-	47,248	47,248	2,567,453	4,134,823	6,702,276
2019	-	-	-	-	47,248	47,248	2,658,935	4,046,091	6,705,026
2020-2024	-	-	-	901,040	215,672	1,116,712	15,709,173	18,695,395	34,404,568
2025-2029	-	-	-	1,618,827	84,868	1,703,695	19,333,892	15,652,759	34,986,651
2030-2034	1,438,168	-	1,438,168	-	-	-	22,801,073	11,955,251	34,756,324
2035-2039	-	-	-	-	-	-	26,551,281	7,342,994	33,894,275
2040-2044	-	-	-	-	-	-	16,515,300	2,169,847	18,685,147
2045-2049	-	-	-	-	-	-	7,495,598	814,102	8,309,700
2050-2053	-	-	-	-	-	-	4,760,127	137,388	4,897,515
Total	\$ 1,438,168	-	1,438,168	2,519,867	536,780	3,056,647	125,579,362	77,876,745	203,456,107

\* - The unamortized discount on the water revenue bonds, series 2006 at December 31, 2014 and 2013 totaled \$574,239 and \$595,639, respectively.

**(8) Leases**

The District leases land to a farm tenant, with lease terms of April 2012 through September 2019. The District’s investment in property subject to the lease was \$575,265 at December 31, 2014 and 2013. The land is enrolled in the U.S. Department of Agriculture Farm Service Agency Conservation Reserve Program (CRP). The District has an agreement in place with the farm tenant to receive 50% of the tenant’s CRP payment, which amounts to \$6,178 annually and was received by the District through fiscal year 2013. In April 2014, the District was notified by the U.S. Department of Agriculture (USDA) they were not eligible to receive CRP funding. The USDA requested the CRP funds collected by the District in years 2012 and 2013 be repaid. The District repaid \$12,356 during the year ended December 31, 2014.

**(9) Compensated Absences**

District employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenses by the District until used or paid. The District’s liability for earned vacation payable to employees at December 30, 2014 and 2013 was \$46,746 and \$50,248, respectively. This liability has been computed based on rates of pay in effect at December 31, 2014 and December 31, 2013, respectively.

**(10) Restatement of Other Postemployment Benefits Liability**

Due to the Affordable Care Act, effective January 1, 2014, the District’s rates/premiums no longer result in an implicit rate subsidy or OPEB liability because the District’s rates vary by age and retirees will pay a premium based on their attained age.

Beginning net position has been restated to adjust for the OPEB costs expensed in prior years.

The effects of the change are summarized as follows:

	<u>Amount</u>
Net position December 31, 2012	\$ 304,346
Adjustment for OPEB costs expensed in prior years	<u>12,000</u>
Net position January 1, 2013, as restated	<u>\$ 316,346</u>

**(11) Assured Guaranty Corporation – Contingent Liability**

The District’s financial statements for the years ended December 31, 2014 and December 31, 2013 include a liability payable to Assured Guaranty Corporation, the reinsurance company, of \$1,675,483. This liability consists of unpaid legal fees and expenses incurred by Assured Guaranty Corporation. As part of the forbearance agreement, Assured Guaranty Corporation agreed to waive, but not forgo, the reimbursement of these expenses by the District. If no termination events occur prior to December 1, 2019 and each December 1 thereafter for 10 years, Assured Guaranty Corporation will permanently forgo 1/10<sup>th</sup> of the amount due each year.

**(12) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending December 31, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of New Position is expected to include a significant liability for the District's proportionate share of the employee pension plan.

**(13) Construction Commitment**

During the year ended December 31, 2014, the District entered into a contract for \$448,513 for the Waukee pump station improvement project. At December 31, 2014, no work had been completed and the contract will be paid as work progresses.

**(14) Subsequent Event**

On February 19, 2015, the District entered into an agreement with the Iowa State University Research Park (ISURP). The District holds exclusive rights and responsibilities to provide water service in certain designated areas which ISURP wishes to develop. These areas are being annexed into the City of Ames and ISURP wishes to procure Ames water services to the property. In order for the City of Ames to provide water services, the City requires undisputed rights to provide these services. The agreement releases the District's water service rights related to the property and includes a promissory note requiring ISURP to pay the District \$609,922, plus interest on the unpaid principal balance at a rate of 2.75% per annum. The payment schedule requires a principal only payment of \$60,922 on February 28, 2015, interest only payments of \$15,097 during fiscal years 2016, 2017 and 2018 and annual principal and interest payments totaling \$100,506 beginning on February 28, 2019 and continuing through February 29, 2024.

**Xenia Rural Water District**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Members of the  
Xenia Rural Water District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2014 and 2013, and the related Notes to Financial Statements, and have issued our report thereon dated April 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Xenia Rural Water District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Xenia Rural Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Xenia Rural Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Xenia Rural Water District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Xenia Rural Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance required to be reported under Government Auditing Standards, which are described as item (D) in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended December 31, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The Xenia Rural Water District's Responses to the Findings

The Xenia Rural Water District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Xenia Rural Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Xenia Rural Water District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 29, 2015

Xenia Rural Water District  
Schedule of Findings  
Year ended December 31, 2014

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Financial Reporting – During the audit, we identified material amounts of prepaid expenses not recorded in the District’s financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all prepaid expenses are identified and included in the District’s financial statements.

Response – The District will continue to improve efforts to ensure all prepaid expenses are reported to reflect accurate balances.

Conclusion – Response accepted.

- (B) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The initial receipt collection is done by an employee who has the ability to post collections and make adjustments to customer accounts.

Additionally, the employee responsible for reconciling is able to post adjustments to the customer accounts receivable ledger and has access to original customer checks electronically deposited to the bank.

Recommendation – The District should review its operating procedures to obtain the maximum internal control possible under the circumstances, including utilizing members of the Board of Directors.

Response – The District has limited staff available for billing, collections and accounting responsibilities which limits the District’s ability to implement ideal control measures. The District will continue to review and monitor its internal control policies in an effort to maximize internal control effectiveness.

Conclusion – Response acknowledged. To strengthen controls, the District should utilize members of the Board of Directors to obtain the maximum internal control possible.

- (C) Inventory – The District maintains an inventory of parts for the assembly and repair of new and existing water systems. The inventory is easily accessible to all employees and the inventory duties are not properly segregated. The individuals who are responsible for the District’s inventory also perform the annual inventory counts. Inventory tracking sheets are to be completed daily, but are not always accurate and there is no evidence of review documented on these sheets by those responsible for the inventory.

Recommendation – The District should develop procedures to ensure the inventory is properly safeguarded and accurately tracked. The review of the daily tracking sheets should be documented by those responsible for the inventory. Also, a person who does not have responsibility for inventory should perform the inventory counts.

Response – The District’s management continues to review the shortcomings of internal controls for inventory and how to better safeguard inventoriable assets and ensure inventoriable assets are properly accounted for and allocated once placed in service.

Conclusion – Response accepted.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2014

**INSTANCES OF NON-COMPLIANCE:**

- (D) Long Term Notes, Bonds and Loans – Instances of non-compliance with the water and wastewater revenue note resolutions and the water revenue bond resolution were noted, as follows:

The District did not meet the minimum balance requirements or make adequate transfers to the water and wastewater reserve and improvement accounts according to the water and wastewater revenue note resolutions and the water revenue bond resolution.

While the District maintains surety bond coverage for employee theft, the amount of coverage does not meet the note and bond resolution requirements.

Recommendation – The District should review the note and bond provisions and comply with the requirements. Also, the District should consult legal counsel to resolve these matters.

Response – The District signed a forbearance agreement with Assured Guaranty Corporation on March 28, 2013 and refinanced all water service notes held by USDA on March 29, 2013. Under both of these contracts, the District has been allowed a grace period for replenishing the reserve funds for both the Series 2006 bonds and the USDA water revenue notes. The Improvement Fund has not been funded due to the balance available in the Revolving Fund, which is available exclusively for water service capital expenditures. Each year, the District has approached the market in an effort to maintain the surety bond coverage requirements, but such coverage has proven unobtainable.

Conclusion – Response acknowledged.

Xenia Rural Water District  
Schedule of Findings  
Year ended December 31, 2014

**Other Findings Related to Required Statutory Reporting:**

- (1) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General opinion dated April 25, 1979 were noted
- (2) Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- (3) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. Chapter 357A.8 of the Code of Iowa requires public notice of the District’s annual meeting be published not less than 10 days or more than 30 days prior to the meeting. The public notice for the fiscal year 2014 annual meeting was published 7 days before the meeting occurred.

Recommendation - The District should ensure the public notice of the annual meeting is published during the required time period.

Response – The District’s management will make sure future public notices are published in accordance with the Code of Iowa.

Conclusion – Response accepted.

- (4) Deposits and Investments – Deposits and investments were in compliance with Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy.
- (5) Water and Wastewater Revenue Notes and Water Revenue Bonds – Instances of non-compliance with the water and wastewater revenue note and the water revenue bond resolutions are detailed in item (D).

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2014

(6) Other Information Required by the Bond Resolution –

Insurance – The following insurance policies were in force at December 31, 2014:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Property:		
	Blanket: Buildings and personal property	\$32,134,684	5/1/15
	Extra expense	75,000	5/1/15
	Contractors equipment	540,236	5/1/15
	Leased contractors equipment	300,000	5/1/15
	Miscellaneous property - radios	26,600	5/1/15
	Data processing - equipment and software	132,500	5/1/15
	Off-site tools and equipment:		
	Per installation site	50,000	5/1/15
	Property temporarily off premises	20,000	5/1/15
	Property in transit	40,000	5/1/15
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	5/1/15
	Products general liability	2,000,000	5/1/15
	Personal and/or advertising	1,000,000	5/1/15
	Each occurrence	1,000,000	5/1/15
	Fire damage	100,000	5/1/15
	Medical expense	5,000	5/1/15
EMC Insurance Companies	Automobile coverage:		
	Liability	1,000,000	5/1/15
	Medical payments	1,000	5/1/15
	Uninsured motorists	100,000	5/1/15
	Underinsured motorists	100,000	5/1/15
Liberty Mutual Workers Comp Group	Workers' compensation:		
	Employee liability limit	1,000,000	5/1/15
EMC Insurance Companies	Commercial umbrella:		
	Policy aggregate	5,000,000	5/1/15
EMC Insurance Companies	Public officials errors and omissions:		
	Liability aggregate limit	3,000,000	6/1/15
	Additional Side A limit	1,000,000	6/1/15
	EPL aggregate limit	1,000,000	6/1/15
	Maximum aggregate	4,000,000	6/1/15
EMC Insurance Companies	Fidelity coverage:		
	Per loss - Employee dishonesty	1,000,000	5/1/15
	Per loss deductible	10,000	5/1/15
EMC Insurance Companies	Employee benefit liability:		
	Each loss from administrative errors	1,000,000	5/1/15
	Aggregate	2,000,000	5/1/15

Xenia Rural Water District  
 Schedule of Findings  
 Year ended December 31, 2014

Water Rates – The following water rates were in effect at December 31, 2014:

<u>RESIDENTIAL/COMMERCIAL</u>	<u>Gallons</u>	<u>Rate</u>
Rural 5/8" meter (non-franchise users):		
Minimum	0-1,000	\$59.70
Steps	per 1,000 after minimum	\$11.90 to \$5.00
Franchise 5/8" meter:		
Minimum	0-1,000	\$40.00 to \$46.84
Steps	per 1,000 after minimum	\$9.70 to \$7.49
City of Boone contracted rate:		
Minimum	0-1,000	\$8.49
Steps	per 1,000 after minimum	\$4.45 to \$7.25
3/4" meter:		
Minimum	0-1,000	\$119.50
Steps	per 1,000 after minimum	\$11.90 to \$5.00
1" meter:		
Minimum	0-1,000	\$179.20
Steps	per 1,000 after minimum	\$11.90 to \$5.00
1 1/2" meter:		
Minimum	0-1,000	\$298.70
Steps	per 1,000 after minimum	\$5.00
2" meter:		
Minimum	0-1,000	\$477.90
Steps	per 1,000 after minimum	\$5.00
6" meter:		
Minimum	0-16,000	\$477.90
Steps	per 1,000 after minimum	\$5.00
<u>INDUSTRIAL</u>	fixed cost	\$14,631.00 to \$67,228.00
	per 1,000 after minimum	\$2.86 to \$1.77
<u>WHOLESALE</u>	no minimum/per 1,000 charge	\$7.24 to \$1.80

Statistical Information

Water Customers served at December 31, 2014:

Description	Number
Residential	9,274
Commercial	341
Industrial	4
Wholesale	10
Total	<u>9,629</u>

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Xenia Rural Water District

Staff

This audit was performed by:

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Stephen J. Hoffman, Staff Auditor  
Jesse J. Probasco, CPA, Staff Auditor  
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